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	Family Name						
	Given Names						
	Student Number						
	Teaching Period	Semester 1, 2018					
FINAL EXAMINATION		DURATION					
LAW511 – Australian Taxation Law							
		Reading Time:	10 minutes				
		Writing Time:	180 minutes				

INSTRUCTIONS TO CANDIDATES

The total marks for this exam: 60

There are three questions each worth 20 marks. Students are required to answer all questions.

EXAM CONDITIONS

You may begin writing from the commencement of the examination session. The reading time indicated above is provided as a guide only.

This is an OPEN BOOK examination

Any calculator is permitted

Hard copy, annotated English translation dictionary

ADDITIONAL AUTHORISED MATERIALS	EXAMINATION MATERIALS TO BE SUPPLIED
	1 x 20 Page Book

**THIS EXAMINATION IS PRINTED
DOUBLE-SIDED.**

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QUESTION ONE

Darwin Pest Control Pty. Ltd. is an Australian resident private company for tax purposes and carries on the business of termite eradication. It is registered for GST.

William Lee, the accountant has prepared the income statement for the year ended 30 June 2018 based on the relevant accounting standards:

Fees		\$13,011,492
Less:		
Operating expenses:		
Advertising	1,100,000	
Accounting depreciation (note 4)	755,000	
Fringe benefits tax	45,000	
Provision for unreported claims (note 5)	150,000	
Provision for bad debts (note 10)	143,000	
Repairs (note 6)	430,000	
Wages and Salaries (note 7)	7,400,000	
Purchase of trading stock (note 8)	920,000	
Superannuation for employees	893,000	
Cost of buying the goodwill of a business (note 9)	<u>400,000</u>	<u>12,236,000</u>
Net profit (Accounting)		<u>\$775,492</u>

Additional Information

- (1) Unless otherwise stated the figures are GST exclusive. They do not include GST.
- (2) On 30 November 2017, the company received a cash dividend of \$100,000 (fully franked). This dividend is **not** recorded in the above Income Statement.
- (3) On 31 August 2017, the company also received a cash dividend of \$85,000 from a US company. Withholding tax of \$15,000 had been withheld in the US. Australia has a double tax agreement with the US. This dividend is **not** recorded in the above Income Statement.
- (4) The accounting depreciation of \$755,000 is based on the directors estimating the effective life of all assets being 5 years. William advises you that for taxation purposes the following information is applicable:

Darwin Pest Control Pty Ltd's final records show that on 1 July 2017 the opening balance of the list of depreciating assets was \$600. The directors decided to sell all of the spray equipment and old trucks during the previous financial year. During the year ended 30 June 2018 the company purchased the following assets to replace what had been sold in the previous year.

- New spray equipment at a cost of \$626,750 (GST inclusive) on 1 July 2017. The estimated life is 5 years.
- A new computer system with specialized software at a cost of \$39,900 (GST inclusive) on 1 July 2017. The estimated life is 4 years.
- Twenty new trucks with special housing for the spray equipment purchased on 1 July 2017 for a total cost \$1,573,288. The estimated life given the kilometres they will travel in the trucks is 6 years. (GST inclusive)
- A new BMW Seven Series for the managing director at a cost of \$245,000. This was purchased on 1 July 2017. The car has an effective life of 8 years. The FBT paid by the company has been included in the accounting figures as shown above. (GST inclusive)
- The company spent \$1,684,000 on building a new factory and warehouse. This price includes all of the construction costs. The new building was occupied for the first time on 1 July 2017.

(5) The provision for unreported claims is based on the company's estimate of remedial work that it would be required to perform under warranties.

(6) The repairs of \$430,000 consisted of painting the company premises for \$40,000 and replacing the old roof of the factory with new steel panels for \$240,000. The new roof was an improvement on the old roof that had a number of holes in it. The company also spent \$150,000 on new signs on the building and near the entrance to the building with the company name and details about the services provided by the company. The new signs replaced old signs that had been damaged in a cyclone. The old signs had been there for 8 years.

(7) Wages of \$7,400,000 include \$40,000 paid for marketing services provided by a director's daughter. The Commissioner considers that \$20,000 is a reasonable amount for the services provided.

(8) Darwin Pest Control Pty Ltd has carried out a stock take and values its closing trading stock at the following amounts:

Cost	\$933,567
Market value	\$985,278

Stock at the beginning of the income year was: \$1,630,000

William has not included the opening and closing stock figures in calculating the net profit of \$775,492.

(9) Darwin Pest Control Pty Ltd purchased the goodwill of a rival business in Katherine. It did not purchase the plant and equipment.

(10) The actual value of the bad debts written off during the year was \$35,000. They engaged a debt collection agency to collect the bad debts.

(11) The company paid a total of \$445,000 in PAYG Installments during the financial year.

(12) The company has advised that it wishes to pay the minimum amount of tax and wants to claim the maximum deductions allowable by law.

REQUIRED

Calculate Darwin Pest Control Pty Ltd.'s taxable income and tax liability for the year ended 30 June 2018.

(20 marks)

QUESTION TWO

Carol is your accounting client and has come to you to prepare her tax return. During the 2017-18 financial year, Carol disposed of the following assets:

- (a) A holiday house. The house was purchased on 1 October 2004 for \$350,000 and sold for \$650,000. The contract of sale was entered into on 5 May 2018 and settlement is to take place on 5 July 2018. The stamp duty and legal fees at the time of acquisition were \$20,000. The advertising and estate agent's fees at the time of disposal were \$8,000. On 1 April 2015, Carol spent \$35,000 adding a second bathroom to the house. Carol rented the house out for 6 months, from 1 October 2010 to 1 April 2012. During this period she derived rent of \$15,000. At all other times she kept it for private use by her family. During the period that she owned the holiday house she had paid a total of \$75,000 in interest, rates and insurance. She had claimed \$15,000 of the \$75,000 as a tax deduction during the relevant financial years.
- (b) Vacant Land. Carol sold vacant residential land originally purchased on 16 June 1984 for \$100,000. She initially intended to build a house on the land, but lacked the finance to do so. The land was sold for \$500,000. The contract of sale was entered into on 28 May 2018 and settlement is to take place on 30 August 2018.
- (c) A Harley Davidson motor cycle. The motor cycle was purchased by Carol for \$130,000 on 1 July 2012. It was a special and rare motor cycle with only 4 made in 1956 and based on the 'Easy Rider' film. It was sold for \$220,000 on 12 December 2017.
- (d) A painting. The painting was purchased by Carol for \$20,000 on 1 May 2009 and sold for \$30,000 on 30 April 2018.
- (e) A horse. Carol used the horse for recreational purposes. Carol had bought the horse on 1 May 2014 for \$6,000. She sold the horse to a horse trainer for \$16,000 on 26 March 2018.
- (f) On 1 July 2006, Carol purchased a house for \$300,000, which she used as her main place of residence. On 1 July 2012 she left Australia to take up a job in London. During her stay in London she did not buy a house, but instead lived in rented accommodation. She returned to Australia and began living in the house again on 30 June 2016. During her absence from Australia, a friend lived in the house and paid Carol rent of \$12,000 per year. Her friend also paid all the outgoings on the house such as the rates, insurance and electricity. The house was sold for \$600,000 on 26 May 2018.
- (g) Shares. Carol bought BHP shares on 2 June 2017 for \$45,000. She sold those shares on 2 May 2018 for \$90,000.

Carol has capital losses she is carrying forward from previous years of \$65,000 from the sale of an antique and \$130,000 from the sale of some shares.

Carol also received a salary of \$89,746 from her position as the manager of a small engineering consulting practice. She also received a fully franked dividend of \$4,500 from her ANZ Bank shares. She received a travel allowance of \$1,400 for the year and claimed a total of \$2,365 as the actual expenses. She has no other deductions. Her employer withheld \$22,000 as PAYG W. Carol does not have private hospital insurance and she lives by herself.

In addition, Carol received \$500,000 from her grandmother as a gift and she won a motor car valued at \$35,500 from a winning raffle ticket.

REQUIRED:

Calculate Carol's tax payable for the year ending 30 June 2018.

(20 marks)

QUESTION THREE

Jim Lee and his wife Mary Lee are the two directors of the private company, Darwin Accounting Services Pty Ltd. On 1 July 2003 a Deed of Settlement was executed establishing the Darwin Accounting Services Trust.

The trust accounts for the consulting business for the year ending 30 June 2018 disclose the following:

Receipts

Consulting receipts	\$524,000
Interest see note (iv)	1,800
Exempt income	40,000
Capital gain from the sale of shares in an Australian company – see note (v)	40,000
Dividend from BHP fully franked	16,540

Expenses

Rent	40,000
Salaries to employees including PAYG Withholding of \$18,000 paid to ATO	127,000
Salary to Jim Lee including PAYGW \$23,000	95,000
Salary to Mary Lee including PAYGW \$15,000	50,000
Payment of Jim's golf club subscription	1,000
Superannuation contributions for employees	15,674
Superannuation contributions for Jim and Mary (50% each)	50,000
New computer system (effective life 4 years)	19,000
New motor vehicle for Jim and Mary (viii)	86,500

Notes - Additional Information – Darwin Accounting Services Trust

- (i) The Trust is a discretionary trust and Jim and Mary have as the trustees full discretion as to how the net trust income will be distributed.
- (ii) The trust is registered as a Small Business Entity (SBE).
- (iii) The Trust is registered for GST and all figures are exclusive of GST.
- (iv) Net interest of \$1,800 from Singapore after withholding tax of \$200 was withheld.
- (v) The trust purchased the shares in January 2018 and sold them on 31 May 2018.
- (vi) On 10 January 2018 one of the employees was robbed at gunpoint of the consulting receipts of \$26,000 while on the way to the bank.
- (vii) In the income year ending 30 June 2017, the trust made a loss of \$120,000 in respect of the consulting business. The reason for the loss was a negligence action brought by an unhappy client who received negligent tax advice relating to capital gains tax. The business

was sued for \$3 million and the insurance company only paid a portion of the damages.

(viii) The vehicle has an effective life of 8 years and is used 100% for business purposes.

The trustees resolved to distribute the net trust income as to 50% to Jim and 50% to Mary.

It is important that you take note of the separate items of income when accounting for the distribution. This means that the capital gain, dividend and exempt income are treated as retaining their original characteristics after distribution.

Jim's individual personal records reveal the following:

Receipts

\$90,000	Salary paid by the trust
\$ 6,000	Rental income from a rental property
?	Distribution from the trust, amount to be determined from the above figures

Expenses

\$8,000	Interest on money borrowed to purchase the income producing property
14,000	Medical fees for Jim and Mary
3,500	Motor vehicle costs associated with Jim using his own car for work purposes using the cents per kilometre method
1,500	Professional membership fees

Notes - Additional Information – Jim's individual activities

- (i) In the income year ending 30 June 2018, Jim made a trading loss of \$36,000.
- (ii) Jim made a capital loss of \$12,000 from the sale of shares on 20 June 2005.
- (iii) The trust paid Jim's expenses of \$3,000 to attend an accounting conference in New Delhi.
- (iv) Jim and Mary have private hospital insurance.

REQUIRED

Calculate the trust net income for the year ended 30 June 2018. Then calculate Jim's share of the net income from the trust and his own personal tax liability for the income year ended 30 June 2018.

(20 marks)

Tax rates 2017–18 - Individual

Taxable income	Tax on this income
0 – \$18,200	Nil
\$18,201 – \$37,000	19c for each \$1 over \$18,200
\$37,001 – \$87,000	\$3,572 plus 32.5c for each \$1 over \$37,000
\$87,001 – \$180,000	\$19,822 plus 37c for each \$1 over \$87,000
\$180,001 and over	\$54,232 plus 45c for each \$1 over \$180,000

The above rates **do not** include the:

- Medicare levy of 2%

COMPANIES

- small business entities - 27.5%
- Other companies and entities - 30%